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The Manufacturers Hanover
Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

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U.S. Trade Deficits . . .

Sometimes lost in the flurry of news about the tidal wave of imports into the United States, the loss of U.S. export competitiveness and the resulting lofty trade deficits is just why this has happened. Last year the U.S. experienced its third consecutive record merchandise trade deficit—$69 billion (f.a.s. exports/c.i.f. imports basis)—and this year the trade deficit is expected to exceed $100 billion. These record deficits owe about as much to the surge in imports, which rose 5.9 percent in 1983 compared with 1982, as to the decline in our exports, which fell 5.5 percent in the same period.

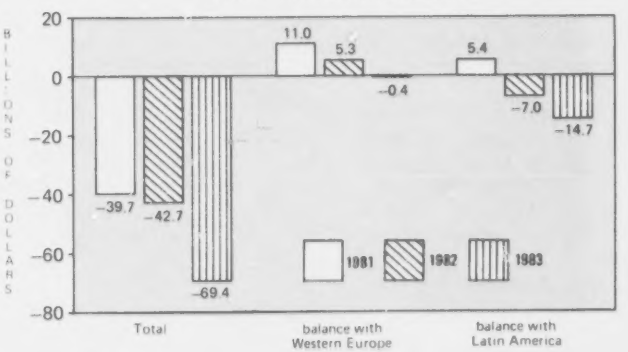
In dollar terms U.S. foreign trade peaked in 1981. Exports in that year reached $234 billion while imports rose to $273 billion. In the last two years, however, sluggish growth in Western Europe, the buoyant strength of the dollar and austere import restrictions by some indebted developing countries, particularly in Latin America, have all contributed to this country's present foreign trade malaise. The strength of the dollar, whose value increased on a trade-weighted basis by 26 percent between the end of 1981 and the end of 1983, has encouraged imports into this country while making our exports less competitive. But it is not the only cause of our worsening trade position.

The structure of U.S. exports is heavily skewed toward manufactured goods. Some two-thirds of all U.S. exports are classified as manufactures and much of this is composed of sophisticated products commonly designated as "high technology"—aircraft, computers and other complex machines. The time lapse between the order and the delivery of such items is usually considerable. Capital goods such as these, along with many other U.S. exports, are sensitive to the state of the economic environment outside of the United States. Cyclical upswings abroad since the second World War have tended to lag behind recoveries in the United States. Consequently, in the first year of an economic upturn in this country exports grow only slowly, if at all, while imports surge in response to revived domestic demand. This pattern has been characteristic of this economic recovery in the U.S. as well, but this time the pattern has been exaggerated. Although U.S. exports fell in real terms by 5.5 percent last year, imports were up by 11.4 percent. Much of this strength in imports is attributable to the vigor of the U.S. recovery as well as its clear antecedence to the recoveries of our trading partners.

. . . Stem From Several Causes . . .

Although U.S. trade deficits have increased worldwide, two areas of traditional U.S. export strength have become pockets of pronounced trade deterioration, each with different causes but similar effects. Western Europe bought over $65 billion in U.S. exports in 1981—28 percent of all U.S. merchandise trade exports; last year this had fallen

U.S. MERCHANDISE TRADE BALANCE: 1981 TO 1983
TOTAL VS. SELECTED REGIONS



to $56 billion. In the same two years U.S. imports from Western Europe rose from $54 billion to over $56 billion generating the first trade deficit with Western Europe since the second World War (see chart). The relative real growth differentials between the United States and the economies of Western Europe account for much of the strong retrogression in U.S. exports to that area. While real growth in the United States was 3.4 percent in 1983, year-over-year Western European growth scarcely exceeded 1.5 percent, less than half of that of this country.

What is more, the export sectors of most European countries contribute much more to GNP growth than in the U.S.—and domestic demand plays a lesser role. For example, whereas in the U.S. exports in the last ten years averaged about seven percent of GNP, in Western Germany exports were equivalent to 24 percent of GNP and in the Netherlands 43 percent. Consequently, with lower rates of

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economic growth, domestic demand tends to fall more sharply than it does in the United States while at the same time the pressure to export to stimulate growth is sharper. And certainly these tendencies have been enhanced because the strength of the dollar has worked in the same direction.

The reason for the deterioration of the U.S. trade position in Latin America is quite different. As a consequence of sharply rising global interest rates as well as a sluggish global economic environment, many developing countries, including the principal nations of Latin America, were forced to slash imports from all of their trading partners beginning in 1982. The United States, which in 1981, sent 17 percent of its exports to Latin America, was one of the principal victims of these cuts. Between 1981 and 1983 U.S. exports to Latin America fell from $39 billion to $23 billion, a plunge of over 40 percent. In the same period U.S. imports from Latin America rose from $34 billion to $38 billion reversing a comfortable U.S. trade surplus of $5 billion to a deficit of $15 billion.

Several of the Latin American nations were able to increase their exports to the United States substantially. For example, U.S. imports from Brazil increased by 11 percent between 1981 and 1983 and Mexican exports to the U.S. over 21 percent in the same two years. Yet in the same period U.S. exports to these countries fell by

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit	4/11/84		
U.S. Gov'ts and Agencies Owned Outright & RPs	159.669	+ .669	+14.181
Loans to Depository Inst.	1.513	+ .399	+ .931
Float	1.336	+ .629	– .907
Total Reserve Bank Credit	171.499	+ 1.712	+13.942
Treasury Deposits with Federal Reserve Banks	3.098	– .656	+ .089
Currency in Circulation	170.362	+ 1.336	+13.105
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	115.738	+ .810	+ 4.624
	4/11/84		
Member Bank Reserves:			
Total Reserves Held	36.125	+ .732	+ 2.583
Excess (Deficiency)	.430	– .292	– .133
Net Borrowed Reserves	.925	– .642	+ 1.331
		% Change Since Three Months Ago*	% Change Since Year Ago
Monetary Aggregates†			
M1 (4/9/84)	536.4	+ 7.2	+ 7.7
M2 (March '84)	2,228.4	+ 5.9	+ 7.8
M3 (March '84)	2,762.4	+ 8.2	+ 9.1
Domestic Nonfinancial Debt (4th Q'83)	5,219.0	+ 10.6	+ 10.8

†Seasonally adjusted. * Seasonally adjusted annual rate.

New York Money Market

Offering Rates 4/19/84	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	9.75%	9.85%	10.00%
* Federal Agencies	9.90	10.35	11.05
* Project Notes–Taxfree (46% Taxable Equivalent)	9.91	10.19	11.30
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	10.55	10.90	11.30

‡Finance Company Paper–Prime		‡* Bankers' Acceptances	
5- 14 days	10.35%	May	10.45%
15- 29 days	10.35	Jun.	10.45
30- 59 days	10.35	Jul.	10.45
60- 89 days	10.25	Aug.	10.55
90-179 days	10.25	Sep.	10.55
180-239 days	10.00	Oct.	10.50
240-270 days	10.00		

‡Industrial Paper–Prime		†Federal Funds Effective Rate	10.70%
30- 89 days	10.23%		
90-120 days	10.25		

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	1st Q'84n	$ 3,541	$ 3,436	$ 3,172
Gross National Product (1972 Dollars)*	1st Q'84n	$ 1,604	$ 1,573	$ 1,490
Percent Change, Annual Rate	1st Q'84n	6.3	5.0	2.6
Change in Consumer Prices (new series)*	Feb '84	4.8%	7.2%	– 1.2%
Change in Producer Prices*	Mar '84	6.0%	4.8%	– 1.2%
Civilian Employment (Thousands of Persons)†	Mar '84	104,140	103,892	99,316
Unemployment as % of Civilian Labor Force†	Mar '84	7.8%	7.8%	10.3%
Personal Income*	Mar '84n	$ 2,941	$ 2,927r	$ 2,670
Leading Indicators Composite Index (1967=100)†	Feb '84	165.9	164.8	147.4
Industrial Production Index (1967=100) †	Mar '84	160.7	160.0	140.0
Net Change in Consumer Installment Credit †	Jan '84	$ 4.34	$ 6.61	$ 2.73
U.S. Merchandise Trade Balance †	Feb '84	–$ 10.09	–$ 9.47	–$ 3.37
Plant and Equipment Expenditures*	2nd Q'84	$335.40(a)	$332.66(a)	$293.46
Private Housing Starts (Thousands of Units)*	Mar '84n	1,638	2,231r	1,592
New Construction Expenditures*	Feb '84	$ 295.0	$ 276.0	$ 243.0
Total Business Inventories †	Feb '84	$ 527.0	$ 517.8	$ 507.7
Total Business Sales †	Feb '84	$ 399.5	$ 400.9	$ 341.5

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

33 percent and 49 percent respectively. Clearly, the improvement so far in these countries' trade positions owe much more to import controls than to export growth.

. . . And Improvement Will Be Slow

It is clear that the mature industrialized economies of Western Europe have been able to respond to the opportunity presented to them by the earlier economic recovery in the United States and by the competitive edge which a strong U.S. currency gave to their exports; Latin America, on the other hand, has had to adopt defensive policies of import austerity even at the cost of much reduced growth in order to preserve valuable foreign exchange for debt repayment.

It is likely that the forces causing the deterioration of the U.S. trade position in Western Europe will ease within the near future as the nascent recoveries of these economies strengthen and the demand for imports respond. Indeed, this year overall real economic growth in Western Europe is expected to average 2.5 percent with several countries exceeding the average and with even higher rates of growth in 1985. What is more, strong growth in Canada and Japan, our two chief trading partners, is also expected to help U.S. exports this year and next. Significant improvement in our trade balance with Latin America, however, will take longer. It is likely that many of these countries may have to pursue policies of import restraint for some time to come. H

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Time Deposits of $100,000 or more Weekly Reporting Banks			
Nationwide (4/4/84)	142,350	– 945	–11,913
New York City (4/4/84)	29,315	+ 130	– 8,072
Commercial Paper (4/4/84)	199,847	+ 907	+33,833

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (4/4/84)	233,045	+ 1,812	NA*
New York City (4/4/84)	61,308	+ 694	NA*

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (4/4/84)	591,159	+ 3,901	NA*
New York City (4/4/84)	134,795	+ 2,864	NA*

*Year ago data not available due to definitional changes.

Financial Markets

	Thursday 4/19/84	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	10.07%	+ .07	+ 1.77
180-Day Bills†	10.45	+ .11	+ 1.85
Longest Bills†	10.92	+ .30	+ 2.07
Recent Issues:			
11 1/2s 3/31/86	11.66	+ .25	
12s 3/31/88	12.24	+ .29	
11 3/4s 11/15/93	12.70	+ .36	
12s 8/15/13	12.74	+ .36	
Municipals:			
Bond Buyer–20 Bond Index*	9.89%	– .08	+ .80
Blue List Total ($ Million)	$1,511	– $89	+ $ 185
30-Day Visible Supply ($ Million)	$2,504	+ $66	– $1,617
Total	$4,015	– $23	– $1,432
Corporates:			
Moody's Aa Composite (4/18/84)	13.47%	+ .15	+ 1.42
30-Day Visible Supply ($ Million)	$ 725	– $60	– $200
Stocks:			
Dow-Jones Averages:			
Industrials	1,158.08	+ 7.95	– 38.22
Transportation	500.82	+ 3.49	– 26.42
Utilities	126.69	+ 1.35	– .48
65 Stocks	452.77	+ 3.37	– 14.38
Standard and Poor's 500 Stocks	158.02	+ .71	– 2.40
N.Y.S.E. Composite Index	90.89	+ .39	– 1.26
N.Y.S.E. Avg. Daily Vol. for Week (000's)	83,343	– 5,265	– 14,397

* 46% Taxable equivalent 18.31%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Thursday 4/19/84	Week Ago
Overnight	10.63%	10.00%
1 month	10.75	10.44
3 month	11.06	10.69
6 month	11.38	11.00
1 year	11.81	11.38
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	12.50%	12.25%
Long Term (7 to 15 yrs.)	12.75	12.50

FOREIGN EXCHANGE SPOT RATES

New York Opening (4/19/84)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.01848	54.10
Canada	.7808	1.2807
Denmark	.1026	9.7500
France	.1226	8.1575
Germany	.3775	2.6490
Italy	.0006108	1637.30
Japan	.004457	224.38
Mexico	.005587	179.00
Netherlands	.3346	2.9890
Switzerland	.4561	2.1923
U.K.	1.4190	.7047

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